

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2016 and 2015

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Discovery Learning Alliance, Inc. and Affiliates

Index

	<u>Page</u>
Independent Auditor's Report on Consolidated Financial Statements	2
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Change in Net Assets	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Independent Auditor's Report on Supplementary Information	17
Schedule of Activity for Discovery Girls Project	18

Independent Auditor's Report on Consolidated Financial Statements

To the Board of Directors
Discovery Learning Alliance, Inc.,
Silver Spring, Maryland

We have audited the accompanying consolidated financial statements of Discovery Learning Alliance, Inc. and Affiliates (the "Alliance"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the related consolidated statements of activities and change in net assets, consolidated statements of functional expenses and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Discovery Learning Alliance, Inc. and Affiliates as of December 31, 2016 and 2015, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
June 15, 2017

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

	<u>Assets</u>	
	2016	2015
Current assets		
Cash and cash equivalents	\$ 1,180,605	\$ 2,270,753
Investments	3,725,727	3,769,015
Accounts receivable	626,136	245,340
Contributions and grants receivable	239,890	2,236,227
Advances	3,205	16,225
Prepaid expenses	8,840	21,075
Deposits	94,472	443,768
Total current assets	5,878,875	9,002,403
Equipment, at cost		
Equipment	54,770	54,770
Less: accumulated depreciation	(39,145)	(26,645)
	15,625	28,125
	\$ 5,894,500	\$ 9,030,528
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable and accrued expenses	\$ 230,295	\$ 280,731
Deferred revenue	-	8,484
Refundable advance	-	456,290
Total current liabilities	230,295	745,505
Net assets		
Unrestricted		
Operating	4,128,535	3,655,060
Board designated - operating reserve	425,000	425,000
Total unrestricted	4,553,535	4,080,060
Temporarily restricted	1,110,670	4,204,963
Total net assets	5,664,205	8,285,023
	\$ 5,894,500	\$ 9,030,528

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support						
Contributions and grants	\$ -	\$ 8,915	\$ 8,915	\$ 1,850	\$ 1,682,225	\$ 1,684,075
Foundation grants	43	-	43	39	-	39
Subcontract revenue	5,081,714	-	5,081,714	6,471,602	-	6,471,602
Contract revenue	88,960	-	88,960	139,310	-	139,310
Discount on multi-year contributions and grants	-	-	-	-	24,873	24,873
In-kind contributions	1,351,223	308,535	1,659,758	1,094,141	395,410	1,489,551
Investment income	41,515	-	41,515	38,015	23	38,038
Other income (loss)	31,585	3,028	34,613	(308,202)	(24,537)	(332,739)
Net assets released from restrictions	3,414,771	(3,414,771)	-	1,904,586	(1,904,586)	-
Total revenue and support	10,009,811	(3,094,293)	6,915,518	9,341,341	173,408	9,514,749
Expenses						
Program services	7,785,735	-	7,785,735	8,040,666	-	8,040,666
General administration	1,743,295	-	1,743,295	1,631,694	-	1,631,694
Fundraising	7,306	-	7,306	43,213	-	43,213
Total expenses	9,536,336	-	9,536,336	9,715,573	-	9,715,573
Change in net assets	473,475	(3,094,293)	(2,620,818)	(374,232)	173,408	(200,824)
Net assets, beginning of year	4,080,060	4,204,963	8,285,023	4,454,292	4,031,555	8,485,847
Net assets, end of year	<u>\$ 4,553,535</u>	<u>\$ 1,110,670</u>	<u>\$ 5,664,205</u>	<u>\$ 4,080,060</u>	<u>\$ 4,204,963</u>	<u>\$ 8,285,023</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2016**

	<u>Program services</u>	<u>General administration</u>	<u>Fundraising</u>	<u>Total expenses</u>
Consultants	\$ 3,101,826	\$ 88,366	\$ 3,900	\$ 3,194,092
Production of video programs	1,732,435	3,750	-	1,736,185
Salaries	513,592	558,377	-	1,071,969
In-kind program management	409,257	370,244	917	780,418
Travel	731,876	42,782	-	774,658
Equipment purchase and maintenance	460,575	447	-	461,022
Rent	87,005	279,817	-	366,822
Conferences, meetings and training	310,992	32,237	1,541	344,770
Payroll taxes and benefits	102,729	98,360	-	201,089
Postage and shipping	170,890	2,379	-	173,269
Accounting fees	45,440	41,895	-	87,335
Telephone and internet	71,743	10,583	-	82,326
Insurance	-	66,002	-	66,002
Legal fees	939	64,618	-	65,557
Office supplies and expenses	37,080	13,369	-	50,449
Bank fees	4,147	26,873	948	31,968
Dues and memberships	199	27,595	-	27,794
Depreciation	-	12,500	-	12,500
Printing, publications and website	5,010	3,101	-	8,111
	<u>\$ 7,785,735</u>	<u>\$ 1,743,295</u>	<u>\$ 7,306</u>	<u>\$ 9,536,336</u>
Total expenses	<u>\$ 7,785,735</u>	<u>\$ 1,743,295</u>	<u>\$ 7,306</u>	<u>\$ 9,536,336</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2015**

	<u>Program services</u>	<u>General administration</u>	<u>Fundraising</u>	<u>Total expenses</u>
Consultants	\$ 2,645,393	\$ 90,781	\$ 29,967	\$ 2,766,141
Production of video programs	1,453,001	-	-	1,453,001
Salaries	459,909	604,393	-	1,064,302
In-kind program management	419,251	210,138	5,918	635,307
Travel	980,203	56,255	6,571	1,043,029
Equipment purchase and maintenance	831,245	21	-	831,266
Rent	83,925	184,988	-	268,913
Conferences, meetings and training	705,658	4,287	-	709,945
Payroll taxes and benefits	83,222	114,701	-	197,923
Postage and shipping	136,501	595	-	137,096
Accounting fees	68,313	45,456	-	113,769
Telephone and internet	75,607	11,632	-	87,239
Insurance	-	60,350	-	60,350
Legal fees	3,238	138,609	-	141,847
Office supplies and expenses	81,857	36,881	-	118,738
Bank fees	5,208	29,049	757	35,014
Dues and memberships	584	26,782	-	27,366
Depreciation	-	9,375	-	9,375
Printing, publications and website	7,551	7,401	-	14,952
	<u>\$ 8,040,666</u>	<u>\$ 1,631,694</u>	<u>\$ 43,213</u>	<u>\$ 9,715,573</u>
Total expenses	<u>\$ 8,040,666</u>	<u>\$ 1,631,694</u>	<u>\$ 43,213</u>	<u>\$ 9,715,573</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (2,620,818)	\$ (200,824)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	12,500	9,375
Unrealized loss on investments	13,815	9,949
Realized gain on investments	(4,199)	(1,076)
Amortization of bond premiums, net	25,877	45,294
Decrease in discount on contributions and grants receivable	-	(24,873)
Changes in:		
Accounts receivable	(380,796)	(97,458)
Contributions and grants receivable	1,996,337	310,509
Advances	13,020	(9,746)
Prepaid expenses	12,235	25,150
Deposits	349,296	92,302
Accounts payable and accrued expenses	(50,436)	(41,457)
Deferred revenue	(8,484)	8,484
Refundable advance	(456,290)	(496,038)
	(1,097,943)	(370,409)
Net cash used in operating activities		
Cash flows from investing activities		
Proceeds from redemptions/sales of investments	2,305,683	2,808,777
Purchases of investments	(2,297,888)	(3,118,162)
Purchases of equipment	-	(8,749)
	7,795	(318,134)
Net cash provided by (used in) investing activities		
Net decrease in cash and cash equivalents	(1,090,148)	(688,543)
Cash and cash equivalents, beginning of year	2,270,753	2,959,296
Cash and cash equivalents, end of year	\$ 1,180,605	\$ 2,270,753

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 1 - Summary of significant accounting policies

Organization

The Discovery Learning Alliance, Inc. ("DLA") is a nonprofit organization organized in the State of Delaware in 1997 to provide technological resources and training to under-resourced schools and community centers in the developing world. DLA, formerly known as Discovery Channel Global Education Partnership, formally changed its legal name to Discovery Learning Alliance, Inc. in 2013. DLA establishes learning centers in under-resourced schools and community centers through a comprehensive program on use of video in the classroom that includes televisions, DVD equipment, regionally tailored educational videos, access to information from a wide range of sources and long-term training. DLA is supported principally by grants, contracts and contributions.

In July 2010, DLA became a 49 percent owner of a special purpose entity, Ocean Spray Trading 49 ("PTY") LTD ("Ocean Spray"), a for-profit, South African Company organized in July 2010, whose sole purpose is to produce, test and distribute *Inside Story*. DLA has a controlling financial interest in Ocean Spray through an agreement to manage Ocean Spray and the requirement to fund all costs of *Inside Story* and losses of Ocean Spray. The 51 percent owner has not made and has no requirement to make any capital contributions and has no obligation to fund any costs associated with *Inside Story* or losses of Ocean Spray. There is no expectation that *Inside Story* will generate net income and the ownership agreement is silent as to any allocation of net income to the members. The 51 percent owner receives fees for services provided to Ocean Spray, which are funded by DLA. As a result, the 51 percent owner has no capital at risk or obligation to fund losses throughout the life of Ocean Spray. Therefore, 100 percent of all financial activity related to *Inside Story* is consolidated by DLA without allocating a share of the losses to the 51 percent owner. Ocean Spray was officially deregistered on February 23, 2016. For the years ended December 31, 2016 and 2015, DLA provided \$0 in capital contributions to fund the costs of the Movie. Ocean Spray had no activity in 2016 or 2015.

In October 2015, DLA became a 49 percent owner of another special purpose entity, Inside TB ("PTY") Ltd ("Inside TB"), a for-profit, South African Company originally organized in August 2013 under the name Lampoquest (PTY) Ltd, whose sole purpose is to produce, test and distribute *The Lucky Specials* (the "Movie"). On December 14, 2016, the name was changed to the Lucky Specials Productions (PTY) LTD. DLA has a controlling financial interest in Inside TB through an agreement to manage Inside TB and the requirement to fund all costs of the Movie and losses of Inside TB. The 51 percent owner has not made and has no requirement to make any capital contributions and has no obligation to fund any costs associated with the Movie or losses of Inside TB. There is no expectation that the Movie will generate net income and the ownership agreement is silent as to any allocation of net income to the members. The 51 percent owner receives fees for services provided to Inside TB, which are funded by DLA. As a result, the 51 percent owner has no capital at risk or obligation to fund losses throughout the life of Inside TB. Therefore, 100 percent of all financial activity related to the Movie is consolidated by DLA without allocating a share of the losses to the 51 percent owner.

Principles of consolidation

The consolidated financial statements include the accounts of DLA, Ocean Spray Trading 49 ("PTY") LTD and Inside TB ("PTY") Ltd (collectively, the "Alliance"). All significant intercompany accounts and transactions between the organizations have been eliminated.

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Basis of presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Interest in affiliates

DLA and Inside TB entered into an agreement for professional services in connection with the planning and production of the film, *The Lucky Specials* (the "Movie"). Inside TB retains copyright of the Movie, as required by law for participation in the rebate program of the South African Department of Trade and Industry. DLA has a worldwide, paid-up license for all use and distribution of the film and its footage. For the year ended December 31, 2016, DLA provided \$850,000 in capital contributions to fund the costs of the Movie. There were no capital contributions made for the year ended December 31, 2015. For the year ended December 31, 2016, Inside TB spent \$904,401 on production expenses for the Movie. The additional \$54,401 is recorded in accounts payable and accrued expenses on DLA's statement of financial position at December 31, 2016. There was no activity for Inside TB for the year ended December 31, 2015.

Functional and presentation currency

Items included in the consolidated financial statements of the Alliance are measured using the currency of the primary economic environment in which the Alliance operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars, which is the Alliance's functional and presentation currency. Transactions in a currency other than the functional and presentation currency (foreign currency) are translated into the functional currency using the exchange rates prevailing at the date of significant transactions or an exchange rate at the date the Alliance made a cash transfer to the foreign entity using the first-in, first-out method to account for transactions. Currency translation gains and losses for the years ended December 31, 2016 and 2015, resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies was a gain of \$29,681 in 2016 and a loss of \$348,763 in 2015, and are recognized in the consolidated statements of activities and change in net assets and are included in other income (loss).

Cash and cash equivalents

For consolidated financial statements purposes, the Alliance considers cash in operating bank accounts and cash on hand to be cash and cash equivalents. Money market funds held in investment accounts with investment institutions are classified as cash and cash equivalents on the consolidated statements of financial position.

Investments

Investments are recorded at fair value. The Alliance invests in corporate bonds, government and agency bonds and certificates of deposit that are considered debt securities and therefore are recorded at fair value. Interest and dividend income and realized and unrealized gains and losses are included in investment income on the consolidated statements of activities and change in net assets. Investment income earned on temporarily restricted net assets is classified as temporarily restricted net assets if specified by the donor. Upon appropriation for expenditure, subject to any purpose restrictions, the amounts for current year expenditures are reclassified from temporarily restricted to unrestricted net assets. Any other investment income is reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations. Investments are available to be used to fund Alliance operations. The Alliance invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could result in a change in fair value of

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

the investment balances and amounts reported in the accompanying consolidated financial statements, which could be material.

Equipment

Equipment in excess of \$1,500 with estimated useful lives of greater than one year are capitalized. Equipment is depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years.

Website development costs

The Alliance has capitalized certain website development costs incurred during the application development stage. Subsequent costs to maintain and operate the website are expensed as incurred. Capitalized website development costs are being amortized using the straight-line method over three years, and amortization begins once the website is placed in service. At December 31, 2016 and 2015, capitalized website development costs totaled \$37,500. Amortization expense was \$12,500 and \$9,375 in 2016 and 2015, respectively. Total accumulated amortization at December 31, 2016 and 2015 was \$21,875 and \$9,375, respectively. Future amortization expense is expected to be \$12,500 for the year ending December 31, 2017, and \$3,125 for the year ending December 31, 2018.

Income tax status

DLA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the DLA's tax-exempt purpose is subject to taxation as unrelated business income. There has been no unrelated business income or income tax expense reported for the years ended December 31, 2016 and 2015. Ocean Spray Trading 49 ("PTY") LTD and Inside TB ("PTY") LTD are both subject to tax laws of South Africa and had no taxable income to report in accordance with South African tax laws for the years ended December 31, 2016 and 2015.

The Alliance believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Alliance recognizes interest expense and penalties on income taxes related to uncertain tax positions in general administration expense on the consolidated statements of activities and change in net assets and in accounts payable and accrued expenses in the consolidated statements of financial position. The Alliance reported no penalties or interest on income taxes related to uncertain tax positions for the years ended December 31, 2016 and 2015. Tax years prior to 2013 for the Alliance are no longer subject to examination by the IRS or the tax jurisdictions of Maryland and Delaware.

Contributions and grants receivable

Contributions and grants receivable represent unconditional promises to give and are recorded when the promise is made. Unconditional promises that are expected to be collected within one year are reflected as current contributions and grants receivable and recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are reflected as long-term temporarily restricted contributions and grants receivable and recorded at the present value of their estimated future cash flows using a risk-adjusted discount rate of 3.00 percent. Amortization of the discount is included in revenue and support in the consolidated statements of activities and change in net assets. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines a pledge, or a portion thereof, to be uncollectible. At December 31, 2016 and 2015, contributions and grants receivable are considered to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these consolidated financial statements. At December 31, 2016 and 2015, all contributions and grants

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2016 and 2015

receivable are expected to be collected within one year and are reflected as current assets on the consolidated statements of financial position.

Accounts receivable

The Alliance records accounts receivable, net of an allowance for doubtful accounts when necessary. The need for an allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged-off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. Management considers all receivables to be fully collectible.

Revenue recognition

The Alliance records contributions as revenue when they are pledged by the donor or when received in cash if not pledged. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets represent resources with temporary, donor-imposed time and/or program-specific restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a certain period.

Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purposes and are reported in the consolidated statements of activities and change in net assets as net assets released from restrictions. The Alliance had no permanently restricted net assets for the years ended December 31, 2016 and 2015.

Revenues from federal and other contract/subcontract funding sources are recognized when the related expenses are incurred. Contract/subcontract expenses incurred before the related contract/subcontract revenue is received are reported as accounts receivable. Contract revenue received before the expenses are incurred is recorded as deferred revenue. Subcontract revenue received from Discovery Communications, LLC before the expenses are incurred is recorded as refundable advance. Revenues from fixed-price contracts are recognized on the percentage-of-completion method and the revenue recognized is based on the percentage of incurred costs to date to the most recently estimated total completion costs.

Use of estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Functional allocation of expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis on the consolidated statements of activities and change in net assets. Certain costs have been allocated among program and supporting service classifications on the basis of an analysis made by the Alliance's management.

In-kind contributions

Donated goods and services are recorded at their estimated fair value at the time of donation. Donated professional services include services rendered in connection with the Alliance's programs and general administration. These services are recorded at their fair value at the time the service is performed.

Discovery Learning Alliance, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Concentration of revenue

Including in-kind contributions, the Alliance derived approximately 97 percent and 84 percent of its revenue from Discovery Communications, LLC ("DCL") for the years ended December 31, 2016 and 2015, respectively. DCL also accounted for 72 percent and 42 percent of the Alliance's accounts, grants and contributions receivable as of December 31, 2016 and 2015, respectively.

Subsequent events

The Alliance has evaluated events and transactions for potential recognition or disclosure through June 15, 2017, the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Investments at December 31, 2016 and 2015, consist of fixed income securities as follows:

	2016	2015
Corporate bonds	\$ 1,872,558	\$ 2,096,950
Government and agency bonds	1,853,169	1,672,065
	\$ 3,725,727	\$ 3,769,015

Investment income consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividend income	\$ 51,131	\$ 46,911
Realized gain on investments	4,199	1,076
Unrealized loss on investments	(13,815)	(9,949)
	\$ 41,515	\$ 38,038

Note 3 - Net assets

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received by the Alliance. These contributions are restricted for the following at December 31, 2016 and 2015:

	2016	2015
Time restrictions		
DCL Pledge	\$ -	\$ 853,987
DCL - Supervising Producer	-	130,000
Program restrictions:		
Chevron Nigeria Limited	421,015	617,993
Discovery Girls	43,924	502,002
Shell Petroleum Development Nigeria	382,394	601,133
Inside TB	263,337	1,499,848
	\$ 1,110,670	\$ 4,204,963

Discovery Learning Alliance, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Net assets were released from donor restrictions by incurring expenses that satisfied the restricted purposes specified by the donors or by the passage of time as follows for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time Restrictions		
DCL Pledge	\$ 853,987	\$ 521,048
DCL - Supervising Producer	130,000	52,000
Program Restrictions:		
CCAF Africa Education Initiative	-	15,257
Avanti Education Initiative	8,640	-
Chevron Nigeria Limited	198,478	183,861
Discovery Girls	766,614	882,156
Shell Petroleum Development Nigeria	219,766	249,888
Inside TB	<u>1,237,286</u>	<u>376</u>
	<u>\$ 3,414,771</u>	<u>\$ 1,904,586</u>

Board designated net assets consist of an operating reserve fund of \$425,000 at December 31, 2016 and 2015.

Note 4 - Transactions with Discovery Communications, LLC

DCL, which founded the DLA in 1997, provides staffing and related benefits, office space and office support for DLA. The office support provided includes telecommunications, computer software and hardware, copying services, and other office expenses. In addition, DCL provides production services to the DLA. At times, contributions from DCL have been a major source of the DLA's revenue. Payments received from DCL were \$983,987 and \$1,126,269 for the years ended December 31, 2016 and 2015, respectively.

In 2013, the DLA signed a subcontract with DCL to implement DCL's education project in Ghana, Kenya and Nigeria titled "Discovery Girls" (the "DFID Project"). During the DFID Project period-of-performance, DCL advances funds to DLA as budgeted to meet direct expenses incurred. Actual direct costs incurred are applied against the advance. The remaining advance left to spend at December 31, 2016 and 2015 was \$0 and \$456,290, respectively, and is included as a refundable advance on the consolidated statements of financial position. Additionally, DLA receives a 7 percent fee on all DLA's costs (indirect and direct) incurred for the DFID Project. The amount due from DCL for unreimbursed costs, including the fee at December 31, 2016 and 2015 is \$622,411 and \$189,645, respectively, and is included in accounts receivable on the consolidated statements of financial position. Revenue related to the DFID Project is included in subcontract revenue on the consolidated statements of activities and change in net assets.

Discovery Learning Alliance, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

The Alliance received the following in-kind contributions from DCL:

	2016	2015
Program management, rent and shared services	\$ 1,089,019	\$ 850,386
Production of video programs	516,075	505,822
	\$ 1,605,094	\$ 1,356,208

Note 5 - In-kind contributions

In addition to the in-kind contributions that were received from DCL (Note 4), the Alliance received in-kind contributions for legal services from other vendors. For the years ended December 31, 2016 and 2015, these contributions totaled approximately \$55,000 and \$133,000, respectively. The majority of these contributions are reflected as part of general administration expenses for the years ended December 31, 2016 and 2015.

Note 6 - Pension plan

The Alliance maintains a 401(k) plan that covers all Alliance employees. The Plan provides for a discretionary profit-sharing contribution, as well as an employer match equal to 100 percent of employee contributions, not to exceed 5 percent of the participant's annual compensation. The Alliance made contributions of \$49,466 and \$41,159 for the years ended December 31, 2016 and 2015, respectively.

Note 7 - Fair value measurements

The Alliance has determined the fair value of certain assets through *Fair Value Measurement* ("Topic 820") of the FASB Accounting Standards Codification. Fair value of assets measured on a recurring basis at December 31, 2016 and 2015 is as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>December 31, 2016</u>				
Assets:				
Corporate bonds	\$ 1,872,558	\$ -	\$ 1,872,558	\$ -
Government and agency bonds	1,853,169	-	1,853,169	-
	\$ 3,725,727	\$ -	\$ 3,725,727	\$ -
<u>December 31, 2015</u>				
Assets:				
Corporate bonds	\$ 2,096,950	\$ -	\$ 2,096,950	\$ -
Government and agency bonds	1,672,065	-	1,672,065	-
	\$ 3,769,015	\$ -	\$ 3,769,015	\$ -

Discovery Learning Alliance, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets or liabilities in active or inactive markets as significant other observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Alliance uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Alliance measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 investments consist of corporate bonds, and government and agency bonds, and are valued using a market approach from pricing sources utilized by investment managers. There were no changes in the valuation techniques during the current year.

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Directors
Discovery Learning Alliance, Inc. and Affiliates
Silver Spring, Maryland

We have audited the consolidated financial statements of Discovery Learning Alliance, Inc. and Affiliates as of and for the years ended December 31, 2016 and 2015, and our report thereon dated June 15, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of activity for Discovery Girls Project is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Bethesda, Maryland
June 15, 2017

Discovery Learning Alliance, Inc. and Affiliates

Schedule of Activity for Discovery Girls Project Year Ended December 31, 2016

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2016 Total
Fees Local									
Accounting Fees	\$ 14,329	\$ -	\$ 9,341	\$ 23,670	\$ -	\$ -	\$ -	\$ -	\$ 23,670
Management Fees	22,966	128,750	34,954	186,670	-	-	-	-	186,670
Project Directors	38,082	65,851	20,850	124,783	-	-	-	-	124,783
Training & Outreach Managers	26,391	41,243	23,736	91,370	-	-	-	-	91,370
Girl's Club Coordinators	12,909	25,324	-	38,233	-	-	-	-	38,233
Community Action Mobilizers	28,574	55,689	65,521	149,784	-	-	-	-	149,784
Procurement & Logistics Coordinators	8,633	15,190	11,233	35,056	-	-	-	-	35,056
Office Administrators	6,754	13,402	12,132	32,288	-	-	-	-	32,288
Talent	-	-	3,015	3,015	-	-	-	-	3,015
Trainers	113,674	243,701	190,276	547,651	-	-	-	-	547,651
Contracted Training Staff	-	18,888	-	18,888	-	-	-	-	18,888
Drivers	8,352	6,912	12,008	27,272	-	-	-	-	27,272
Director	-	-	118	118	-	-	-	-	118
Producer's Unit	-	-	768	768	-	-	-	-	768
Video & Audio Production	-	-	19,738	19,738	-	-	-	-	19,738
Outside Production Costs	195	280	2,004	2,479	-	-	-	-	2,479
Conferences & Seminars	127	127	127	381	-	-	-	-	381
Total Fees Local	280,986	615,357	405,821	1,302,164	-	-	-	-	1,302,164
Fees International									
Wages, Taxes & Benefits	116,248	38,471	124,731	279,450	50,156	57,404	52,364	159,924	439,374
HQ Project Management	-	-	-	-	87,400	91,043	95,658	274,101	274,101
Regional Management	-	-	-	-	74,174	162,112	50,866	287,152	287,152
Producer	4,569	4,569	4,569	13,707	5,417	5,417	5,417	16,250	29,957
Consulting Evaluations	375,903	375,903	375,903	1,127,709	-	-	-	-	1,127,709
Consulting	18,423	18,423	22,479	59,325	2,917	2,917	2,917	8,750	68,075
Security	8,880	5,280	5,438	19,598	-	-	-	-	19,598
Total Fees International	524,023	442,646	533,120	1,499,789	220,064	318,893	207,222	746,177	2,245,966
IT and Office Equipment									
Office Equipment Purchase	211	1,446	1,077	2,734	-	-	-	-	2,734
Office Repairs and Maintenance	493	28	1,164	1,685	-	-	-	-	1,685
Total IT and Office Equipment	704	1,474	2,241	4,419	-	-	-	-	4,419
Travel - Local									
Domestic Travel	4,804	12,056	10,298	27,158	-	-	-	-	27,158
Auto Lease Expense	12,922	57,120	19,725	89,767	-	-	-	-	89,767
Auto Fuel Expense	9,552	4,677	7,624	21,853	-	-	-	-	21,853
Auto Repair Expense	6,498	-	2,324	8,822	-	-	-	-	8,822
Total Travel - Local	33,776	73,853	39,971	147,600	-	-	-	-	147,600
Travel - International									
International Travel	20,763	21,378	23,172	65,313	-	-	-	-	65,313
Hotel and Sustenance									
Hotel and Accommodation Domestic	421	2,561	7,625	10,607	-	-	-	-	10,607
Hotel and Accommodation International	22,384	22,235	8,127	52,746	-	-	-	-	52,746
Meals and per diem Domestic	3,420	5,505	1,321	10,246	-	-	-	-	10,246
Meals and per diem International	8,939	10,789	12,500	32,228	-	-	-	-	32,228
Total Hotel and Sustenance	35,164	41,090	29,573	105,827	-	-	-	-	105,827

This schedule represents total costs of DCL's Discovery Girls Project, not of DLA's share of project costs.

Discovery Learning Alliance, Inc. and Affiliates

Schedule of Activity for Discovery Girls Project Year Ended December 31, 2016

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2016 Total
Education Supplies									
LC Equipment Purchase	\$ 107,177	\$ 191,989	\$ 123,429	\$ 422,595	\$ -	\$ -	\$ -	\$ -	\$ 422,595
LC Equipment Delivery and Installation	6,186	26,473	5,262	37,921	-	-	-	-	37,921
LC Equipment Maintenance	-	60	-	60	-	-	-	-	60
Video Program Duplication and Replication	50,729	47,179	27,420	125,328	183,477	9,404	658,142	851,023	976,351
Video Program Distribution/Shipping	45,710	73,486	40,752	159,948	-	-	-	-	159,948
Total Education Supplies	209,802	339,187	196,863	745,852	183,477	9,404	658,142	851,023	1,596,875
Training Material Costs									
Workshop Venue and Catering	76,145	70,536	56,633	203,314	-	-	-	-	203,314
Workshop Materials and Supplies	22,143	31,276	20,432	73,851	-	-	-	-	73,851
Staff Workshop Travel	23,299	94,265	41,687	159,251	-	-	-	-	159,251
Participant Workshop Travel	32,816	67,961	40,386	141,163	-	-	-	-	141,163
Curricular Mapping	-	15,347	-	15,347	-	-	-	-	15,347
Total Training Material Costs	154,403	279,385	159,138	592,926	-	-	-	-	592,926
Overheads									
Audit Fees	6,003	6,003	6,418	18,424	-	-	-	-	18,424
Office Supplies & Expenses	2,322	10,311	8,987	21,620	-	-	-	-	21,620
Rent & Utilities	12,218	33,629	11,320	57,167	3,362	3,362	3,362	10,086	67,253
HQ Shared Services	-	-	-	-	6,233	6,233	6,233	18,699	18,699
Bank Fees	383	3,130	406	3,919	-	-	-	-	3,919
Postage/Shipping & Courier	713	4,372	1,903	6,988	-	-	-	-	6,988
Telephone/Fax/Internet	11,866	28,066	22,412	62,344	-	-	-	-	62,344
Recruiting	589	-	-	589	-	-	-	-	589
Photocopy & Printing	909	147	2,280	3,336	-	-	-	-	3,336
Project Photography	1,414	1,911	1,414	4,739	-	-	-	-	4,739
Total Overheads	36,417	87,569	55,140	179,126	9,595	9,595	9,595	28,785	207,911
Total Direct Expenses	1,296,038	1,901,939	1,445,039	4,643,016	413,136	337,892	874,959	1,625,985	6,269,001
Indirect Costs (7%)	119,602	156,733	162,363	438,698	-	-	-	-	438,698
Total expenses	\$ 1,415,640	\$ 2,058,672	\$ 1,607,402	\$ 5,081,714	\$ 413,136	\$ 337,892	\$ 874,959	\$ 1,625,985	\$ 6,707,699

This schedule represents total costs of DCL's Discovery Girls Project, not of DLA's share of project costs.

See Independent Auditor's Report on Supplementary Information.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com